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C O N F I D E N T I A L SECTION 01 OF 03 COLOMBO 001434

SIPDIS

FOR THE DEPUTY SECRETARY FROM AMBASSADOR WILLS

E.O. 12958: DECL: 08/06/12

TAGS: [PREL](#) [PGOV](#) [PTER](#) [ECON](#) [CE](#) [LTTE](#)

SUBJECT: Scenesetter for your upcoming visit to Sri Lanka

(U) Classified by Ambassador E. Ashley Wills: Reasons: 1.5 (b,d).

1. (U) I want to extend a very warm welcome to you on your August 22-23 visit to Sri Lanka. The Country Team and the entire Mission community eagerly look forward to your visit.

Summary

2. (C) Your visit to Sri Lanka comes at an exciting time. The ongoing ceasefire is the longest break that Sri Lankans have had from the ethnic conflict since it began in 1983. There are hopeful signs that the government and the Tamil Tigers may sit down for negotiations at some point later this year. The situation remains fluid, however, with Tiger intentions unclear. The peace process could also be undermined by foes in the south, possibly working in tandem with President Kumaratunga, who has increasingly tense cohabitation relations with the government. The government is also working hard on economic reforms. Overall, this is a period of tremendous opportunity and volatility in Sri Lanka. It is also a time of significant U.S. influence. Prime Minister Wickremesinghe wants to work closely with the U.S., as he made clear during his recent visit to Washington. Your visit will help cement the gains made in U.S.-Sri Lankan relations, while underscoring our strong support for the peace process. As events in coming days could be consequential regarding cohabitation ties, I may update you with another message before your arrival.
End Summary.

Status of the Peace Process

3. (C) The election of a new government in December 2001 heralded in an exciting period in Sri Lanka. The United National Front (UNF) government headed by Prime Minister Ranil Wickremasinghe has taken an activist posture, particularly regarding the peace process. In short order, the government and the Liberation Tigers of Tamil Eelam (LTTE) re-initiated the stalled Norwegian government facilitation effort and put unilateral ceasefires into effect in December 2001. The government also took rapid steps to ease tensions by lifting roadblocks and checkpoints, and ending bans on medicine and other items entering LTTE-controlled territories. Continuing the trend of the past several years, the government's performance on human rights issues has also been a strong one, with many fewer Tamils complaining of mistreatment at the hands of the security forces. (Note: There is still an appearance of impunity in some cases that the GSL needs to deal with, however.)

4. (C) In a benchmark event, the GSL and the LTTE concluded a formal ceasefire accord in February. The accord led to the reopening of a key road link connecting Jaffna to the south in April. The LTTE, however, has complained that the GSL has not done enough to implement the accord in other areas, such as by vacating temples and public buildings in the north and east. The government says (accurately) that it is trying hard to comply with the terms of the accord. The accord is being monitored by the Norwegian-run Sri Lanka Monitoring Mission (SLMM), which has performed capably, but is thin on the ground (roughly 50 personnel total).

5. (C) All of these steps have had a dramatic effect in decreasing tensions in the country, bringing relief to a war weary populace. Already, the ongoing ceasefire is the longest break that Sri Lankans have had from the ethnic conflict since it began in 1983. This new spirit was symbolized by PM Wickremesinghe's visit to Jaffna in March, the first such visit by a GSL leader in years. Assistant Secretary Rocca joined Wickremesinghe for part of this visit, underscoring U.S. support for the peace process. A/S Rocca's visit also led to the

arrival of a demining team sponsored by the U.S., which has been clearing mines in Jaffna since April.

16. (C) At this time, the focus of the peace process is "talks on talks," i.e., trying to reach agreement on modalities for face-to-face negotiations on a permanent settlement of the conflict. The GSL has indicated its readiness for talks for some months now, but the LTTE has been holding back its agreement to a date certain for starting them. In a positive sign, senior Minister Milinda Moragoda held talks with LTTE spokesman Anton Balasingham in London on July 27. The talks were constructive, and Moragoda believes that high-level negotiations could begin at some point in September or October. (Note: The two sides have already agreed that the venue of the talks will be Thailand.) Balasingham is due to visit LTTE-controlled areas in the north in late August, around the same time that Norwegian Deputy Foreign Minister Helgesen is scheduled to visit Colombo.

17. (C) Despite so much progress in so short a time, GSL interlocutors will be the first to tell you that the situation is fluid. One key reason for this is lack of confidence in the LTTE. While it is clear that the LTTE is worried about further international isolation in the aftermath of September 11, it is not clear whether the organization is simply looking for a hiatus to wait out the storm. Some of the LTTE's activities raise questions about its commitment to peace, including forced recruitment for its military (some of it of children), and the widespread extortion of money from Tamils and Muslims. The LTTE also remains authoritarian in structure and has not renounced terrorism. Nonetheless, the GSL -- fully realizing it is taking a big risk -- has made the decision that it wants to test the LTTE to determine whether it is for real.

Cohabitation Friction

18. (C) Another factor that could unravel the peace process is domestic opposition in the south. The radical, Sinhalese chauvinist Janantha Vimukthi Peramuna (JVP) has engaged in rallies and demonstrations against the ceasefire accord. A potentially more ominous threat to the peace process is President Kumaratunga and her party, who have sent mixed signals, at times constructive, at times critical. Kumaratunga's attitude seems largely bound up in the cohabitation tensions that flare between her and Prime Minister Wickremasinghe's government. Of late, these tensions have only climbed higher, and the GSL is threatening to call snap elections if the president does not back down. At the same time, there is talk that the president may try to force the government out, suspend Parliament, and call for elections. None of these rumblings is good for the peace process, especially during this sensitive period when the modalities of negotiations are being debated with the LTTE.

Economic Issues

19. (SBU) Turning to economic issues, Sri Lanka has the most open economy in South Asia and a relatively high per capita income (USD 837). Still, economic growth in Sri Lanka has been uneven and is mostly confined to the greater Colombo region, while the conflict areas in the north and the east suffer severe economic degradation. A litany of problems in 2001 conspired to produce the country's first year of GDP contraction since independence (minus 1.4 percent). The new UNF government appears committed to putting the right policies in place to re-ignite economic growth. The main test of this commitment came in its 2002 budget, presented in March. This budget contained many substantive reform measures and was key to restarting the suspended payments of the IMF's Standby Arrangement. The government is now implementing many of these reforms, while trying to minimize the burden of increased prices on the population. We expect 2002 to be a rebuilding year, with growth of 1-2 percent.

110. (SBU) On the commercial side, Sri Lanka has historically had a large trade imbalance with the U.S. (10:1 in recent years). The recently signed Trade and Investment Framework Agreement will formalize discussions on opportunities and problems in bilateral trade. The Prime Minister is planning a trip to New York in September that will focus, in part, on attracting investors and stimulating U.S. interest in doing business in Sri Lanka. You may hear from GSL contacts about Sri Lanka's interest in negotiating a Free Trade Agreement with the U.S. We are encouraged by

the signals from Washington that Sri Lanka may be on the list for a FTA in the future, but are aware, as is the GSL, that this will not happen in the near-term. Sri Lanka is also very interested in the Millennium Challenge Account.

Conclusion

11. (C) This exciting period in Sri Lanka provides many opportunities for the U.S. Per the recent policy review, USG teams are due to visit Sri Lanka soon to review enhanced defense cooperation, economic and commercial issues, and the possible return of the Peace Corps. As he made clear during his recent visit to Washington, Prime Minister Wickremesinghe wants to work closely with the U.S. Your visit will help cement U.S.-Sri Lankan relations and underscore our strong support for the peace process.

12. (SBU) We suggest that you make the following key points in your meetings with GSL and other interlocutors:

-- Express U.S. support for the peace process and Norwegian facilitation. GSL needs to be bold; keep up momentum. Sri Lanka is a vital symbol of movement toward peace and stability in a troubled region.

-- Stress that U.S. wants to assist GSL on both peace and economic fronts in concrete ways. U.S. demining assistance continues in Jaffna, for example, and Peace Corps is assessing possible return.

-- All parties should work in national interest on peace process and on economic reform. It is important that peace process not falter because of political infighting.

-- Human rights issues important; GSL has shown significant improvement; need to work to end appearance of impunity.

-- Would like to see increased opportunities for U.S. exports and investment; GSL needs to follow through on economic reform agenda in order to foster a competitive environment and create growth.

13. (SBU) As events in coming days could be consequential regarding cohabitation ties, I may update you with another message before your arrival.

WILLS